Tax Related Recommendations

In ranking the specific recommendations shown below, the following general principles are understood:

(1). Overall changes in the tax system should be revenue-neutral.
(2). The tax system should be equitable and fair resulting in similarly situated taxpayers being taxed similarly and similar transactions being taxed in the same manner.
(3). The tax system should be as simple as possible, thereby reducing compliance burdens on taxpayers and administrative burdens on government.
(4). The tax system should provide the government with a sufficient and predictable source of revenue without having to resort to rate increases.
(5). The tax system should be efficient and not impede or reduce the productive capacity of the economy.
(6). The tax system should be competitive with other states in order to promote long-term sustainable economic development, job creation and growth.

Recommendations:

(Rank from 1 to 14 in terms of priority where 1 should be the highest priority item and 14 should be the lowest priority)

_2_ Reduce the top marginal individual income tax rate to a rate that is competitive with other southeastern states.

_3_ Broaden the individual income tax base to federal adjusted gross income with minimal deductions and exemptions.

_5_ Reduce the number of individual income taxpayers by eliminating the filing requirement of those with immaterial taxable income and who pay an insignificant amount of income tax.

_4_ Reduce the corporate income tax rate to a rate that is competitive with other southeastern states.

_6_ Broaden the corporate income tax base by enacting a combined reporting regime for related entities and conduct a comprehensive review of the corporate franchise tax in order to alleviate any possible compliance burdens as a result of two corporate tax reporting systems.

_12_ Repeal the estate and gift taxes.

_8_ Reduce North Carolina's reliance on the individual income tax

_1_ Broaden the sales tax base to include services in a revenue neutral manner and lower the sales tax rate.

_7_ Eliminate differential rates in the sales tax as well as sales tax exemptions (including the food exemption). Some mechanism should be provided to relieve lower income households from any additional tax burden.

_11_ Move all excise taxes to an ad-valorem basis.

_13_   Include privilege taxes as sales/use taxes or eliminate them.

_3_   Give local governments greater flexibility with respect to how they raise revenue to fund the services they provide. A menu of taxes and fees should be available to local governments and should be consistent across the state. The menu should include but not be limited to: options for sales taxes, real estate transfer fees or deed stamp taxes, impact fees, motor vehicle license taxes and vehicle use fees.

_10_   Reduce reliance on the gas tax and use alternative proxies for road use such as an increased vehicle sales tax, motor vehicle license tax, or mileage based fees that would lead to additional resources for transportation infrastructure.

_9_   Give local governments options to provide property tax deferrals for elderly or fixed income residents and to revalue property using annual indexing.

Program Responsibilities and Infrastructure Recommendations

In ranking the specific recommendations shown below, the following general principles are understood:

(1).   Needs should be assessed and provided at the lowest possible level of government consistent with economies of scale and other efficiency concerns.
(2).   Local functions should be paid for by locally controlled and collected revenue sources and state functions and state mandated functions should be paid for by state controlled and collected revenue sources.
(3).   Funding formulas should be driven by need or other factors closely associated with the provision of the service.
(4).   Every citizen in North Carolina should be assured of receiving uniform and sufficient opportunities for essential services.
(5).   North Carolina and local governments should use debt conservatively and follow the State's debt affordability guidelines.
(6).   Any shift from local governments to state government (and vice versa) for funding responsibility must include a swap of revenue authority.
(7).   Public infrastructure should be financed by those who benefit most directly from the capital investment.

Recommendations:

(Rank from 1 to 8 in terms of priority where 1 should be the highest priority item and 8 should be the lowest priority).

_1_   The State should assume responsibility for the county share of Medicaid.

_6_   The State should develop and implement wellness programs in order to control the long-term costs of Medicaid and consider other options such as Medicaid HMOs, "fees" for smoking, expanding pay for performance programs and linking benchmark care standards (to be developed by the Governor's office) to reimbursement rates.

_7_   The State should take over funding responsibilities for local election personnel or shift authority for local election personnel to local governments.

_3_   Where appropriate, tolls roads and public/private partnerships may be used to finance transportation projects and increase the speed of completion. Proxies for the use of roads and highways such as the gas tax and highway use tax should remain the prevailing source of revenues for these purposes.

_5_   Local governments should be given flexibility to use Powell Bill funds for projects on state roads.

_4_   The State should issue bonds to replace the 1998 Clean Water Bonds. Funds from these bonds should be allocated to local utilities that have the greatest need and should be used to provide incentives to regionalize or otherwise provide more cost effective services.

_6_   Local governments should assess user rates to cover both capital and operational costs of providing water and sewer infrastructure.

_2_   The State should provide greater flexibility for the use of local tax revenue by lifting some mandates that earmark revenues.